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RUEHPE/AMEMBASSY LIMA 2453  
RUEHMD/AMEMBASSY MADRID 3386  
RUEHMN/AMEMBASSY MONTEVIDEO 4495  
RUEHQT/AMEMBASSY QUITO 4980  
RUEHSG/AMEMBASSY SANTIAGO 9566  
RUEHLMC/MILLENNIUM CHALLENGE CORP  
RHMFIUU/HQ USSOUTHCOM MIAMI FL  
RUMIAAA/USCINCSO MIAMI FL  
RUEHUB/USINT HAVANA 0225  
RHEHNSC/NSC WASHINGTON DC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
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UNCLAS SECTION 01 OF 02 LA PAZ 000732

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR WHA/AND  
TREASURY FOR SGOOCH  
LIMA FOR USDA/FAS/EPHILHOWER  
MCC FOR AKIRSCHENBAUM

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TAGS: [EAID](#) [ECON](#) [EINV](#) [ETRD](#) [BL](#)  
SUBJECT: PLANNING MINISTER INTERESTED IN TRADE AGREEMENT

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Summary  
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¶1. (SBU) Planning Minister Loza told the Ambassador that he is interested in pursuing a new type of trade agreement with the United States and emphasized the importance of donor coordination. He argued that the state development bank would be a regulated, second tier institution that would have little impact on the sector as a whole due to its small amount of capital. He explained that the GOB's appointment of a new executive secretary for the PL 480 secretariat, funded by the USG and Japan, would only serve as an interim secretary with a limited mandate of conducting an audit.

SIPDIS  
Loza expressed interest in pursuing a compact with the Millennium Challenge Corporation. End summary.

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Trade Agreement  
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¶2. (SBU) Planning Minister Gabriel Loza told the Ambassador on March 13 that, according to his vision, Bolivia must be inserted into the world market, particularly the important U.S. market. He is interested in pursuing a new type of trade agreement with the United States and suggested forming a technical working group supported by USAID and a GOB think-tank to provide analysis that could be used to help generate a GOB proposal.

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Donor Coordination  
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¶3. (SBU) Loza emphasized the importance of donor coordination and communication. The Ambassador explained that although around 65 percent of U.S. aid is given directly to private partners rather than to the GOB, our aid is coordinated with the ministries, and USAID participates in the donor harmonization process.

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State Development Bank  
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¶4. (SBU) In response to Ambassador Goldberg's expression of concern about the future of Bolivia's model microfinance sector, Loza argued that the state development bank would be a second-tier lending institution that would follow prudential norms and be monitored by the banking regulator. He asserted that the state should intervene in the financial system to generate greater competition and lower interest rates, forcing private banks to decrease the spread between assets and liabilities. He added that the state development bank would aim for single digit rates, potentially around nine percent. He argued that because the bank would only have USD 60 million in initial capital and a planned USD 200 million by year-end, it would not harm the sector, as the whole system has around USD 4 billion. He explained that the Andean Development Corporation would partner with the bank, and that the bank would have a delimited "social production arm" that would provide subsidies, donations, bonuses, etc. The bank would focus on supporting five productive sectors: textiles, leather, wood, food processing, and tourism, he said. He said that the government does not support imposing interest rate caps.

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PL 480 Secretariat  
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¶5. (SBU) The Ambassador pointed out that, according to a written agreement, the GOB must consult USAID before changing leadership at the PL-480 secretariat, a GOB entity supported by USG and Japanese funds to administer PL-480 Title I and Title III and other donations. The Ambassador expressed concern about the government's proposed appointment of a new executive secretary who seems unqualified. Loza agreed to put in writing that the new secretary would only be appointed on an interim basis with the limited mandate of conducting an audit of the secretariat and that USAID would be consulted regarding the permanent replacement. He explained that the audit was necessary due to allegations he had received from the Bolivian controller general.

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MCC  
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¶6. (SBU) The Ambassador noted that the GOB had submitted a good proposal to the Millennium Challenge Corporation in December 2005 and encouraged Loza to base the revised proposal on the original one. He added that Bolivia would need to continue complying with MCC requirements to work towards a compact in 2008. Loza responded that MCC and other programs that would benefit the Bolivian people, such as ATPDEA trade benefits, are important and should be pursued.

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Comment  
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¶7. (SBU) On donor coordination, Loza failed to mention that one of the largest donors -- Venezuela -- does not participate in the coordination process, reducing the efficacy of the program. On the state development bank, Loza failed to mention the possibility of the state-owned Union

Bank and the now Venezuelan-owned Prodem microfinance lender working together with the state development bank to directly lend to the public in unfair, subsidized competition with the private sector. The addition of those two institutions to the development bank program would have a significant impact on the sector. End comment.  
GOLDBERG